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January 21, 1997

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, DC 20554

Teleport Communications Group  
Two Lafayette Centre, Suite 400  
1133 Twenty First Street, N.W.  
Washington, D.C. 20036  
Tel: 202.739.0033  
Fax: 202.739.0044

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

RE: Notification of Oral Ex Parte Communication: Access Charge Reform  
CC Docket No. 96-262

Dear Mr. Caton:

Today, on January 21, 1997, Robert Atkinson, Senior Vice President-Legal, Regulatory and External Affairs, and J. Manning Lee, Vice President Regulatory Affairs, met with Regina M. Keeney, Chief - Common Carrier Bureau, and Jane Jackson, Deputy Chief-Competitive Pricing Division, regarding Teleport Communications Group's recommendations for access charge reform. The attached document was used as an outline of the discussion; thus, these pages should not be counted toward the ex parte page limit for this proceeding. An original and one copy of this letter are being submitted in accordance with Sec. 1.1206(a)(b) of the Commission's rules.

Thank you very much for your assistance in this matter.

Sincerely,

Judith E. Herrman  
Manager, Federal Regulatory Affairs

cc: Regina Keeney  
Jane Jackson

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# **SWITCHED ACCESS REFORM**

- **TCG IS THE MOST SUBSTANTIAL “PURE” CLEC:**
  
- **WE REPRESENT NEW FACILITIES-BASED LOCAL EXCHANGE COMPETITORS.**
  
- **FUNDAMENTAL POLICY OBJECTIVES FOR SWITCHED ACCESS REFORM:**
  - **A - ADDRESSABILITY**
  - **B - BASED ON COSTS**
  - **C - COMPETITION ENHANCING**

## **SWITCHED ACCESS REFORM**

### **TCG GENERALLY FAVORS THE COMMISSION'S PROPOSED CHANGES IN SWITCHED ACCESS RATE STRUCTURES**

- TCG SUPPORTS COMMISSION EFFORTS TO ELIMINATE BELOW COST PRICING OF ACCESS TANDEM SERVICES
  - MUST CHANGE CURRENT FCC POLICIES THAT REQUIRE ILECS TO CHARGE ONLY 20% OF REAL COSTS FOR TANDEM SWITCHING AND REQUIRE FULL COST RECOVERY
  - MUST CHANGE CURRENT FCC POLICIES THAT REQUIRE ILECS TO OFFER AN ARTIFICIALLY LOW "VIRTUAL ROUTING" RATE FOR TANDEM TRANSPORT AND REQUIRE COST BASED RATES
- TCG SUPPORTS COMMISSION PROPOSALS TO REFORM THE "RESIDUAL INTERCONNECTION CHARGE"
  - FCC MUST SHIFT RIC INTO RATE ELEMENTS THAT TCG CAN COMPETE FOR
    - EXAMPLES: MULTIPLEXING SERVICES, HIGH CAPACITY TRANSPORT SERVICES, SS7 SIGNALING SERVICES, TANDEM SWITCHING
- TCG SUPPORTS PROPOSALS TO CHANGE CARRIER COMMUNICATION LINE CHARGE TO "PER PRESUBSCRIBED LINE CHARGE" PAID BY IXCS (OR END USERS WITH NO "PIC")

- TCG SUPPORTS COMMISSION PROPOSALS TO ALLOW SUBSCRIBER LINE CHARGES FOR LARGE BUSINESS USERS AND SECOND RESIDENTIAL LINES TO GRADUALLY INCREASE TO FULL COST LEVELS
- TCG FAVORS COMMISSION PROPOSALS TO USE FLAT-RATED "CAPACITY CHARGES" FOR NON-TRAFFIC SENSITIVE PORTIONS OF LOCAL AND TANDEM SWITCHING SERVICES, SUCH AS PORTS

## **SWITCHED ACCESS REFORM**

### **TCG DOES NOT SUPPORT COMMISSION PROPOSALS FOR "MARKET BASED" PRICING FLEXIBILITY**

- RELIANCE ON COMPETITION HAS PROVEN SUCCESSFUL IN OTHER AREAS, EXAMPLES BEING THE IMPROVEMENTS IN QUALITY AND PRICE THAT HAVE BEEN SEEN IN SPECIAL ACCESS AND DEDICATED TRANSPORT
  - BUT ... PRIOR SUCCESSES ALWAYS ALLOWED COMPETITION TO BECOME ESTABLISHED BEFORE CONSIDERING DEREGULATION FOR INCUMBENT LECs
- COMMISSION'S PROPOSAL FOR MARKET BASED APPROACH LOADS TOO MUCH PRICING FLEXIBILITY AT THE "FRONT END" BEFORE ANY COMPETITION HAS BECOME EVIDENT IN MARKET
  - IN LOCAL SWITCHING MARKETS, ILECs STILL CONTROL IN EXCESS OF 99% OF THE LINES AND MINUTES -- FACILITIES BASED LOCAL COMPETITION IS IN ITS INFANCY, AND UNBUNDLED ELEMENT BASED COMPETITION HAS NOT BEEN SUCCESSFULLY IMPLEMENTED
  - COMMISSION'S MARKET BASED APPROACH IS "BAD DEREGULATION" WHILE PRESCRIPTIVE APPROACH IS BAD REGULATION, BUT "BAD REGULATION" IS BETTER THAN "BAD DEREGULATION"

- THERE IS A BETTER WAY -- A THREE STAGE PLAN TO SWITCHED ACCESS REFORM
  - STAGE ONE -- IMPLEMENT RATE STRUCTURE REFORMS, UNIVERSAL SERVICE FUND COST REALLOCATIONS -- ALSO GIVE INDUSTRY TIME TO ADJUST TO NEW PRICING AND RATE STRUCTURES
  - STAGE TWO -- IMPLEMENT PRICE LEVEL REFORMS COINCIDENT WITH THE SEPARATIONS CHANGES NEEDED TO SHIFT COSTS OUT OF ACCESS
  - STAGE THREE -- IMPLEMENT ILEC PRICING FLEXIBILITY COINCIDENT WITH APPROPRIATE MARKETPLACE DEVELOPMENTS.